



Voluntary Report - public distribution

Date: 06/11/1999

GAIN Report MD9002

Moldova

Grain and Feed

Grain and Feed Situation

1999

Prepared by:

JAMIE ROTHSCILD

U.S. Embassy, Sofia

Drafted by:

MILA BOSHNAKOVA

Report Highlights:

Moldova wheat consumption averages 1,000,000 MT with imports usually required to provide higher quality flour to the local population. The MY 99/00 wheat production is estimated to be lower than last year due to the even lower use of inputs this year and the low MY 98/99 farm gate price of wheat. We estimate that Moldova import requirements are at least 100,000 MT, though it is unlikely that the country can afford to bring in that amount commercially. In 1997, (latest data available) Moldova imported about 30,000 MT of high quality wheat from Canada and Kazakhstan. Moldova continues to export 50,000 MT (1997) of feed quality wheat.

Production	Page 1 of
Crop Area and Yields	Page 2 of
Inputs Use	Page 2 of
Quality	Page 2 of
Private Sector Development	Page 3 of
Prices	Page 2 of
Production Policy	Page 3 of
Consumption	Page 3 of
Human Consumption	Page 3 of
Feed Consumption	Page 4 of
Storage and Stocks	Page 4 of
Consumption Policy	Page 5 of
Marketing Channels/Trade	Page 5 of
Local market	Page 6 of
Exports and Imports	Page 7 of
Trade policy	Page 7 of
Attachment #1. Number of livestock as of October 1, 1998 and as a percent to October 1, 1997 in head.	Page 8 of
Attachment #2. Grain Storage and Milling capacity	Page 8 of
Attachment #3. Import Tariffs, 1997	Page 9 of

Executive Summary

The grain sector in Moldova is dominated by two major crops, wheat and corn, as wheat is the most important for country's consumption and trade. The two crops occupy the largest area of 22.6% and 18.9% of arable land, respectively. Therefore, this report focuses only of these two crops.

The Moldova grain sector has faced difficult problems in the last two years related to low farm-gate price, poor quality of grain, lack of input use and still significant Government control in production, processing and trade.

The forecast for 1999/2000 is for a decline in wheat production due to lower planted area and expected low average yields. Corn production should be higher due to expanding private sector and higher feed demand for on-farm livestock.

U.S. commercial export opportunities are currently limited due to the lack of financial resources and low consumer demand.

Note: The information used in the report is based on AgOffice observations, meetings with private trade sources and Government officials, Government statistics and the report prepared by FAO and Moldova MinAg "Grain policy and Program Strategies".

Production

In spite of the good 1998 crop, the quality of wheat and corn continued to be poor. Large ending stocks in the period July - December 1998 and low consumption due to financial/economic crisis led to oversupply of low quality wheat, low farm-gate prices and shortage of high bread quality wheat. Reportedly, stocks were depleted by June 1999 as a result of higher exports which led to increase in wheat/flour/bread prices.

Table #1. Moldova Grain Production MY97/98-MY 99/00 (Based on Government and Trade Data)						
Grain/Year	Crop Area (000 HA)			Production (000 MT)		
	1997/98	1998/99	1999/2000	1997/98	1998/99	1999/2000
Wheat	355	333	290	1,227	1,000	900
Corn	401	342	400	1,660	1,200	1,450

Crop Area and Yields

Wheat production is grown through the country but the best quality is produced in Southern Moldova. Average wheat yields can be high due to the specifics of grown varieties - the potential is for 4.5-5.0 MT/HA. In the last several years, however, the lack of inputs led to lower yields of about 3.0-3.3 MT/HA and even below 3.0 MT/HA to 2.8 MT/HA in adverse weather conditions.

Inputs Use

Seeds: Local wheat and corn varieties and seeds are produced by two research institutes - "Selecta" for wheat and "Porubeni" for corn. There are two major wheat varieties. "Selecta" produces mother seeds which are afterwards multiplied by special farms to super elite and elite and finally pedigree seeds. Commercial producers purchase these seeds usually on a barter basis of 1.5:1. In the last four years, however, farmers used mainly seeds which were simply set apart from regular grain due to lack of funds for purchases of selected seeds.

Fertilizers/chemicals: Input use in the last four years has been limited. Total fertilizer usage in agriculture has declined from 300,000 MT in 1987 to 20,000 MT in 1996 and chemical usage from 40,000 MT to 4,000 MT.

Until 1998, farmers were supplied by the state monopoly "Fertilitate". Due to the collapse of this institution, farmers must source their own fertilizer often imported from Ukraine and Romania (Moldova does not produce fertilizers and chemicals). Private sector involvement in supplying inputs is limited due to unfair competition WE JUST SAID IT COLLAPSED "Fertilitate", lack of credit and cumbersome licensing procedures.

Machines and Equipment: In 1995, the national fleet included 43,000 tractors (70% wheel and 30% track), 4,200 grain harvesters and 1,800 corn combines. Machines and equipment are old, fuel inefficient and require constant maintenance. Spare parts are limited and expensive. Replacement needs are estimated at 5,000 tractors and 500 harvesters annually. There are several so called Farm Service Centers which offer machine service (customs work) to farmers in return of grain. Lately, "Macey Ferguson" has established such a center and is trying to operate on a cash basis versus barter.

Quality

In general, wheat quality is poor due to various reasons including climate, soils and poor varieties which are selected to produce high yield and lower quality. The average gluten content is 18% with a maximum 23% reached in some Southern regions. Gluten is considered as the most important quality characteristic.

Private Sector Development

Private sector participation in grain production is gradually increasing. The major part of wheat is still produced by state farms partly due to the availability of machines (62% of total wheat in 1997 was produced at state farms and 54% in 1998). Corn is a more attractive crop for private farmers since work can be done manually and production is consumed on-farm livestock (70% private share in 1997). According to a recent survey, 57% of private farmers consider corn as a profitable crop compared to 45% of large state farms.

Prices

The market price of wheat is apparently US\$30-US\$50. Farm-gate prices average 10% to 20% lower. Compared to wheat, barley has little lower price (about US\$1.00-3.00/MT), corn - little a higher (US\$2.00-US\$4.00/MT for 14% moisture content). For comparison purposes, the average sunflower seed price is significantly higher - US\$138-142/MT (November, 1998).

Production Policy

The MinAg considers sunflowerseed and soybeans as priority crops rather than wheat and corn.

In 1999, the MinAg together with the World Bank plans to release a subsidy of about US\$10.0 million to private farmers which is about 150 Lei/HA to support new private farmers for purchasing of initial inputs. This subsidy is on "one off" basis or valid only for the spring of 1999.

Consumption

Moldova's population was estimated at 4.4 million people. Bread and bread products per capita consumption is estimated at 173 kg. Current estimates for grain consumption used for bread is about 600,000 MT or an average of 50,000 MT per month. However, most of this grain is held by farmers and used on-farm. About an estimated 300,000-350,000 MT are traded commercially.

Human Consumption

The total flour milling capacity of processing enterprises is about 2,000 MT/day. The majority of capacity (1,500 MT/day) is at four of the large state factories (kombinats) in the towns of Ceadir Lunga, Comrat, Chisinau and Beltsi. The largest and most important kombinat is this in Chisinau with a capacity of 600 MT/day or 30% of national flour milling capacity. Currently, mills use 20% to 40% of their capacity.

In addition to state kombinats, a recent research indicated an establishment of 368 private and collective mini mills located throughout the country. The average capacity is between 0.5 MT/hour to 1.5 MT/hour or total about 200,000 MT of flour annually. The existence of these mills provides self-sufficiency in rural areas. These mills are considered to have become price competitive with the large kombinats. Recently, these mills have captured flour markets in some larger towns including Chisinau (bakeries, restaurants and retail shops). However, these

mills can not provide sufficient and regular shipments and consistency in quantity and quality.

The flour market comprises of large bakeries on the state kombinats (Franzeluta in Chisinau, 56% state stake; two bakeries at Balti kombinat and one bakery at Chul kombinat), small to medium bakeries under the cooperative association (112 bakeries located throughout Moldova) and small privately owned bakeries. Their market shares are 40%, 50%, and 10%, respectively. Bakeries have to pay premium prices for flour if purchased from state mills. To overcome this disadvantage, some are integrating with mini mills to secure supply. Due to limited demand, currently bakeries work at 20% to 40% of their capacity.

In addition to bread production and feed grain mills, there are two pasta facilities (in Chisinau kombinat and at Franzeluta bakery) which produce annually 11,000 MT of macaroni products using durum semolina from Kazakhstan in mixing with local flour.

Wheat used for on-farm consumption is usually of very low quality but is used for bread. Commercially traded grain, is usually a mixture of higher bread quality and lower feed quality grain.

Bread quality wheat is regarded as grade 1 and 2 and lower quality wheat suitable for mixing for bread consumption is grade 3 and 4. Mills mix higher quality wheat with the feed quality in a proportion of 1:10 which means that the need for higher quality wheat is about 30,000 - 35,000 MT annually. In 1998, it has been estimated that about 10% to 20% of grain is suitable for bread production (200,000 MT of grade 2 and no wheat of grade 3 and 4) and there is a need for imports.

Feed Consumption

The major animal feed mills are associated with the four major kombinats and have a capacity of 2,300 MT/day. In addition, there are four feed mills under the control of municipalities (Floresti, Ungeni, Falesti and Cahul) with the capacity of 2,100 MT/day. The feed mill attached to Chisinau Kombinat is the most important with a capacity of 740 MT/day or 17% of national total. With the loss of the Soviet market, the three mills are working on a partial basis. Feed mills are likely working at only 40% capacity.

Feed wheat consumption is estimated at 350,000 - 400,000 MT. However, currently consumption could be as low as 300,000 MT due to a decline in livestock numbers over the last three years (Attachments #1).

Storage and Stocks

Storage facilities have a capacity of 1.38 MMT of which 570,000 MT or 41% are silos and the remainder are shed type warehouses where grain is stores "on floor" in bulk (Attachment #2). All major storage facilities are associated with labs for testing of grain quality, cleaners and dryers. On-farm storage and therefore, conditioning of grain is usual not sufficient.

In 1998/99, farmers accumulated stocks due to a low farm-gate price and expectations for a price

increase in the future. They also had to set apart grain for their barter transactions in return for fuel (one liter of fuel was equal to 4.0 kilos of wheat). In addition, elevators were full with 1997 stocks and farmers could not use the appropriate storage which led to deterioration in quality.

Reportedly, in 1998 the GOM State Reserve which is usually the largest buyer managed to purchase only 20,000 MT of grain due to the lack of financial resources.

Consumption Policy

There is a Government decision #225 dated April 19, 1996 which asserts that the profit margins of mills to kombinats from the sale of wheat flour of first and second quality for bread should not exceed 10% of total production cost. This regulation does not concern private independent mills. Bakeries also work under a Government controlled profitability on bread of maximum 10% (Government decision #335 dated May 1994, this does not apply for private and cooperative bakeries). In actuality, however, the profitability is from 0% to 6% due to maintenance of low bread prices as a result of ineffective demand.

Marketing Channels/Trade

Local market

The grain market is controlled by the few buyers/traders on the market. At the same time, grain traders are known to keep a low profile so all the players are not necessarily known. Producers lack good information and marketing infrastructure. According to the Department of Statistics, the percentage of grain sold by large enterprises in 1997 were as follows:

Total amount of all grain sold in 1997- 1,375,000 MT of which:

- 18.2% sold to processing factories
- 23.6% sold through market, own shops etc.
- 22.7% given to population as salaries
- 16.1% given as payment for rent
- 19.4% sold through barter deals

The sales price of grain by respective market outlet varies and is usually higher (value) when bartered and the lowest when cash payment for rent is used.

Reportedly, some large Russian companies are working through their agents in Moldova as well as international companies such as "Andre" and "Louis Dreyfus".

Grain traders are typically two types of companies: commercial companies which purchase on the open market and pay in cash; and companies which supply inputs such as fuel, seeds, fertilizers and plant protection chemicals in return of grain. Reportedly, the second type of companies dominate the market. However, they had serious problems with receiving grain since

most farms do not keep their obligations and either sell to other companies or hide grain.

State/private mills and bakeries also play a significant role on the grain market in purchasing grain through agents or directly from farmers either in cash after harvest or also through giving advance payments. The largest bakery in Chisinau is trying to provide itself with higher quality grain by developing a contract system with reliable farmers (at the area of about 50,000 HA). The first results will be seen by this year harvest time.

Exports and Imports

According to unofficial sources, currently there are exports of feed quality grain from Moldova to Russia and some other countries in the region. However, there is still no official data about actual amount of exports. Some MinAg sources estimated 1998 calendar year exports at 50,000-60,000 MT of wheat and 200,000 MT of corn.

In 1998, wheat flour was exported at relatively high price of US\$180-200/MT, usually to Russia and Ukraine. At the same time, reportedly, the state bakeries are purchasing imported Russian wheat flour at US\$132/MT. Wheat flour for pasta is allegedly imported from Hungary.

Grain is imported usually from Kazakhstan, Canada and Russia. The U.S. grain was imported under export credit programs to Moldova in the last several years and consumers are well aware of its prime quality.

Trade policy

There are no export subsidies or quantitative restrictions on imports. The VAT on imports is 20%, there is a license fee of 0.1%, a commission fee of 0.25% and since January 1, 1999, reportedly, a temporary import tax of 5%. All import duties are ad valorem (Attachments #3).

Attachment #1. Number of livestock as of October 1, 1998 and as a percent to October 1, 1997 in head.

	1998	in % to 1997	Change
Cows	288,600	95	- 5%
State farms	45,200	71	-29%
Private farms	243,400	101	+1%
Swine	806,900	104	+4%
State farms	311,100	98	-2%
Private farms	495,800	109	+9%
Sheep and goats	1,159,200	90	-10%
State farms	103,600	76	-24%
Private farms	1,055,600	92	-8%

Attachment #2. Grain Storage and Milling capacity

	Storage capacity MT		Drying capacity MT		Mill Capacity MT/day	
	Silos	Sheds	Wheat	Corn	Flour	Feed
Under Cereale	399,100	258,000	2,080	9,650	1,472	2,294
Under Munic.	172,000	553,200	2,680	16,200	496	2,116
Trans-nistria	197,000	118,300	710	4,300	706	1,174
Total excl. Trans-nistria	571,300	811,200	4,700	25,850	1,968	4,410
Grand Total	768,300	929,500	4,970	30,150	2,674	5,584

Attachment#3. Import Tariffs, 1997

Products	Tariff HS Code	MFN tariff	Preferential
Cereal Grains	10	20%	0
Grain products (incl.flour, malt, gluten)	11	5%	0
Bakery products	19	30%	0